ERISA Advisory Council Statement by
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August 24, 2016
"Technology: The Key to Solving the Inefficiency of Retirement Plan Transfers"

Millennium Trust Company closely follows and participates in the worlds of both employer-sponsored plans and IRAs. We work with almost all of the large recordkeepers, over 1,500 Third Party Administrators (TPAs), major plan consultants, employee benefit attorneys, and over 34,000 plan sponsors. Over 400 of the plan sponsors are large well-known companies. We understand the obstacles ahead for retirees and those organizations that provide investment and retirement services. We of course want to be part of the solution(s) going forward. Millennium was founded in 2000 to offer technology-based custody solutions that would appeal to plan sponsors, plan service providers and plan participants.

In our business, the increasing worker mobility which has resulted in people participating in several employer-sponsored qualified plans over their careers has not gone unnoticed. We are aware of the ERISA Advisory Council's previous meetings and studies in 2014 and 2015 and we have read the studies carefully. The Advisory Council identified challenges in initiating and completing the transfer of a plan participant's balance into a new employer qualified plan and/or trying to consolidate their qualified retirement plan assets from multiple prior employer plans within a single defined contribution plan. There are multiple difficulties in moving retirement plan balances to IRAs as well. Millennium is currently building a paperless electronic approach to minimize these difficulties for the recordkeepers, plan sponsors and participants.

The Advisory Council reported that the employer-sponsored system has become extremely effective in facilitating payroll deductions into retirement plans and that many employer-sponsored plans permit their participants to transfer assets from a former employer plan to their new employer's plan. However, in reality, the "system" remains highly ineffective when it comes to actually moving the assets from plan A to plan B. Below, I cite two examples and the concerns we hope to help solve.

I interviewed a gentleman named Bill about his experience moving his retirement balance after he quit his job. He initially talked to his former employer's HR department but got the impression that the HR person knew little about the process. He also felt the HR department provided minimal help to him since he was no longer with the company. So he reached out by phone to the investment provider recordkeeper. However, they were unable to help him since their system showed he was still an active employee with his former employer. He then called the former employer back, and they were willing to change his employment status but it took several days (The system apparently showed him as an active employee because he had COBRA insurance.). He then called the investment provider but they hadn't been notified yet by the former employer. Finally, after being coded correctly on the investment provider's system, he should have been able to make a distribution upon completing their multi-page form. Bill tried to fill it out online, but the system would not let him log on. The provider would not email the form, so Bill had to do it the old-fashioned way: on paper, through snail mail, which the provider said would take 30 to 45 days. Although the form did finally arrive, Bill's money is still with the former employer's 401(k) plan, since by then Bill had thrown his arms up and said forget it.

I interviewed another individual named Amanda. She recently left her company and wanted to roll her 401(k) (split between traditional and Roth) into IRAs at her personal brokerage firm. She is in the financial services industry, and both her former employer's investment provider recordkeeper and her personal brokerage firm are two of the biggest names in the industry, so she assumed (mistakenly!) this would be a relatively easy process. Amanda called HR at her prior employer, and they said to call the investment provider. The investment provider in turn asked her to contact her brokerage firm. So, after several calls Amanda now understood she needed to establish two new IRA accounts at the brokerage firm before the money could move. And remarkably, the only way to set up these accounts was via fax. It is interesting that in 2016 one of the largest brokerage firms globally still doesn't accept signed documents via email (or secure online portal), but they don't. Once she found a fax machine (not as easy as you might think) and figured it out (Amanda is a Millennial so first-time fax user), she then had to call again and confirm they actually received the fax. All said, it took at least a week just to get the accounts open. Only then could she call the investment provider recordkeeper and actually initiate the rollover. But upon calling the investment provider, she learned it's not possible to transfer the assets in-kind. Even though she wanted to keep the assets in the exact same Target Date ETFs, she was forced to sell all the securities in her 401(k) and repurchase the exact same securities in her IRA. No one could explain why this was the case, so Amanda is still unsure if it's a tax issue rolling from a 401(k) to an IRA or if the firms simply won't transfer retirement assets in-kind between one another.

So Amanda sold all the securities in her 401(k) and went into cash as required, and therefore taking the interim market movement risk. On top of that, the 401(k) investment provider would not transfer the funds electronically to her brokerage firm; nor would they even send paper checks directly to her brokerage firm for deposit. The only way possible was to mail two separate paper checks to Amanda's home, which she had to mail to her brokerage firm herself. She's concerned about the security risk of sending paper checks, not to mention it greatly increases the odds she didn't get the funds transferred within the required timeframes, but that was the required process nonetheless. At this point her Target Date ETFs were sold, she had gone through the paper checks relay game, and finally got the checks deposited into her brokerage accounts so she could repurchase the exact same ETFs back. Unfortunately though, during the 2-3 weeks her funds were floating around as paper checks the stock market increased a few percentage points, meaning Amanda had lost out on thousands of dollars of gains.

As Bill's and Amanda's experiences show, for both plan-to-plan transfers and IRA rollovers, the process is time-consuming and inefficient, often entailing multiple phone calls to multiple parties, faxes, paper checks and other annoyances, and the threat of losses. Even a well-educated professional in financial services like Amanda had trouble navigating the process.

Currently, what we have is a distribution system of delays and frustrations. In the best of circumstances, when a participant asks all the right questions and understands the steps, things might go smoothly. Otherwise, the participant quickly gets overwhelmed. What we need to do is build a system – perhaps something like Expedia, which connects travelers to multiple airlines to book flights. We need to build a system that networks the major recordkeepers to help connect employees and their former and current employers. The recordkeepers are connected with all the plan sponsors and have participants' information. We need to use technology so individuals can complete online forms that move their balances from one plan to their current plan with the same or different recordkeeper, or move balances from one plan to an IRA, or from an IRA to their current DC plan.

The technology already exists today. We believe it could be functional within a few years. The network could be among the 15 to 25 largest recordkeepers, which are responsible for the vast majority of plans and participant balances. Other recordkeepers would be welcome. Eliminate the current patchwork system with a new network of plan data and participant data, one which requires standardized and consistent information. This would include name, address, social security number, date of birth, beneficiary information, and plan name and identifying numbers. At the point of transfer or rollover, there would be clear direction of the plan name and identifying number and an electronic signature by the participant giving authority. The same process would work equally well for situations where the participant wants to move the assets to an IRA of their choice. If it is kept simple and secure, both the participant and plan sponsor would find it easy to navigate. There should be an independent clearinghouse to protect the confidential information and to maximize the efficiencies. We believe this should be accomplished in the private sector.

The Advisory Council has noted that an investigation of plan cash-outs by participants found that half of participants cashing out of the qualified plan environment would not have done so if it was as easy to roll assets into the plan of their current employer as it was to cash out. We agree this is probably true. We need to create a system that is easy for all employee choices. We agree cash-outs are usually a bad choice compared to rolling the money into an IRA or to their new plan, but we also believe that in America the individual should be free to make their own choices. Choice and ease of execution are good.

So to be clear, Millennium favors both rollovers to IRAs and Roll-ins to qualified retirement plans. They are both good solutions and each offers slightly different benefits. We help clients daily with both decisions. In the past 4 years, we have done thousands of rollovers to other IRAs and hundreds of Roll-ins to DC plans.

We are also aware of the emerging trend of states administering IRA-like savings plans for employees of companies that do not offer retirement plans. This is a laudable effort to help remedy the low rate of savings among American workers and the fact that many workers do not have access to employer-sponsored retirement plans. However, we are somewhat skeptical that state-run programs can effectively fill the gap. Our concerns are many, including the complexity of having potentially 50 different programs and 50 sets of rules. Also, many states are struggling financially at this moment and may not be able to adequately fund the administration of their programs. For the programs to work well, employers and employees have to buy in and want to contribute, otherwise employees may opt out. And, what will happen when employees switch jobs or switch jobs to other states. The IRA was created many years ago to specifically address the retirement needs of workers who could not participate in a qualified retirement plan. So the proper vehicle currently exists, but improvements could always be made, including making rollovers easier, and perhaps permitting IRA contributions through payroll deduction.

We have been requested to participate as custodian for a handful of the State-sponsored retirement savings initiatives. We are working with one of the major payroll provider companies on designing a solution which will be ready in early 2017.

We have many years of experience working with plan sponsors, recordkeepers and participants wishing to transfer retirement assets between plans and participants attempting retirement account consolidation. As an organization, nearly 20% of our 250 employee workforce is comprised of IT employees that have and will continue to develop tools to move and consolidate retirement assets. We have education and execution tools that have been useful in assisting participants with these activities.

We are an interested party in the retirement conversation. We would like to see participants have choice and those choices be implemented quickly and effectively. As with most things, technology and cooperation will be a big part of the solution(s). We fully understand that solutions won't happen overnight, but we would like to help move it in the right direction. We recognize that mobility is here to stay and that the proper accumulation of retirement assets has never been more important.

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